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TAGS: ECON EINV EIND PGOV PREL MU
SUBJECT: BIGGER BUDGET ON TAP FOR OMAN IN 2007

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Summary
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¶1. (U) Oman's 2007 budget, recently unveiled by the Minister of National Economy, calls for increased expenditures in anticipation of increased revenues. The government intends to plow a significant portion of the budget into investment-related initiatives to boost energy production and to diversify the economy through industrialization and the construction of infrastructure and tourism-related projects. The government projects a deficit for 2007; however, given the conservative estimates employed in calculating the budget, a surplus is most likely. Initial figures for 2006 show a 16.8% increase in GDP and a sizable budget surplus. According to the Minister, the government's need to retain control over fiscal policies in restructuring the economy led to the Sultanate's decision to defer membership in the proposed GCC monetary union. End summary.

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The Numbers
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¶2. (SBU) On January 7, Minister of National Economy Ahmed bin Abdul Nabi Macki unveiled the Sultanate's budget for calendar year 2007, as approved by the Sultan via Royal Decree 1/2007 on January 1. The budget projects 2007 revenues to be 4.49 billion Omani Rials (RO) (USD 11.99 billion), with expenditures predicted to equal 4.89 billion RO (USD 13.056 billion). While the budget leaves a projected deficit of 400 million RO (USD 1.06 billion), which accounts for 3% of the GDP and 9% of revenues, the government will most likely record at least a small surplus at year's end, based on its tradition of conservatively estimating energy prices. The government premised the budget on oil selling for USD 40 per barrel, with production estimated at 730,000 barrels per day. Based on these figures, oil revenues are expected to account for 3 billion RO (USD 8.01 billion), or 67%, of anticipated government revenues, while gas revenues are projected to account for 550 million RO (USD 1.468 billion), or 12% of anticipated government revenues. Macki predicted that GDP growth for 2007 would be roughly 6%.

¶3. (U) Expenditures for 2007 are expected to increase by 653 million RO (USD 1.743 billion), or 15% above 2006 spending levels. Operating expenses for the ministries are projected to account for 33% of the anticipated expenditures, with education and healthcare expenses accounting for 50% of ministerial operations. Spending on education is up 84

million RO (USD 224.3 million), or 16%, over 2006 figures. The 609 million RO (USD 1.63 billion) the government has allocated for education will account for 38% of the ministerial operating budget, while the government will add another 242 million RO (USD 646 million) for education development projects. Healthcare spending is up 6% over 2006 figures to equal 199 million RO (USD 531 million). Defense spending is estimated to reach 1.23 billion RO (USD 3.29 billion) in 2007, roughly equal to the amount authorized in the 2006 budget. Defense spending as a component of the overall budget, however, dropped from just under 30% in 2006 to 25% in 2007.

¶4. (U) An additional 33% of anticipated expenditures will be allocated to support development projects outlined in the seventh five-year plan (2006-2010), while 25% of the anticipated expenditures are earmarked for oil and gas production, representing an increase of 32% from 2006 figures. Total government salary costs are expected to equal 1.25 billion RO (USD 3.34 billion), which takes into account the additional 130 million RO (USD 347 million) needed to cover the recently announced 15% public sector salary increase.

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Investment Up
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¶5. (U) The government intends in 2007 to spend 1.4 billion RO (USD 3.738 billion) more than in the past year on investment-related expenditures, with 575 million RO (USD 1.535 billion) allocated to enhancing oil production capabilities, 400 million RO (USD 1.068 billion) on gas production capabilities, and 500 million RO (USD 1.335



billion) for various ministerial initiatives. The hefty investment budget reflects continued government emphasis on reversing declining oil production rates, locating additional pockets of gas reserves, and promoting diversification of the economy.

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Solid 2006
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¶6. (U) Macki noted that 2006 represented a good year for public finances. He stated that preliminary estimates peg 2006 GDP growth at 16.8%. Continued strong oil revenues, which offset a 5% decline in oil production over the year, and the growth of non-oil sector activities - in particular the LNG industry (60.7% growth) and the tourism industry (22.4% growth) - had resulted in a projected surplus of 2.4 billion RO (USD 6.41 billion). According to Macki, this surplus will enable the government to absorb various projects awarded by the Sultan during his 2006 "Meet the People" tour, which include road, airport, and port improvements, housing construction, medical equipment purchases, and education initiatives. The remainder of the surplus will be used to bolster government reserve accounts and fund the pension system (reftel).

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GCC Monetary Union: Just Say No
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¶7. (U) During a public question and answer session, Macki was asked why Oman opposed joining the GCC monetary union at a time when the government was running high surpluses. Macki responded that Oman's decision on the proposed common currency was "total," and that as "a developing country," the government couldn't cede its authority regarding borrowing and deficit ceilings to the GCC Secretariat. Even when pressed with the option of joining the monetary union under relaxed criteria, Macki replied that Oman was unable to commit to it "at this point."

¶8. (U) Macki also shunned the implementation of price controls to appease those complaining that the rising prices of goods are outpacing wage increases. Noting that Oman's inflation rate of 3% was below the regional average of 8%, Macki responded "we are not a socialist country," and asserted that price controls would simply foster a black market. On the question of the U.S.-Oman Free Trade Agreement's impact on customs revenue, Macki predicted that the agreement would have a minimal effect since duties as a whole last year only accounted for 80 million RO (USD 213.6 million) in revenue.

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Comment
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¶9. (SBU) As reported reftel, the budget represents the continued concerted effort by the government to use the surpluses generated by high oil prices to diversify the economic base of the country through industrialization, tourism-based projects, and infrastructure improvements, while at the same time stashing excess funds away for future low oil-price contingencies, as is traditional, and to fulfill pension obligations. We expect the government, through its conservative estimation of oil prices and production, to post another surplus for 2007, though not as great as was recorded in 2005 and 2006.

¶10. (SBU) On the issue of Oman's non-participation in the GCC monetary union, Macki's statement has been the clearest so far from a government official on the reasons for the Sultanate's decision. His definitive "no," regardless of the stringency of the criteria imposed, signals Oman's strong desire to remain as independent as possible in controlling its own monetary and budgetary policies.
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